THE BRITISH TREASURY AND THE LONDON STOCK EXCHANGE

By W. R. Lawson,

Author of *British War Finance*, London, Eng.

In after years the effects of the European war will be thoroughly discussed from many different points of view. Its military, its political and its financial bearings will be vehemently canvassed by critics of many opposite opinions and sympathies. For most of these controversies the proper time has not yet arrived—it is hardly even in sight. Some of them may not assume definite form for years to come. Prolonged and trying as the war has been, the reconstruction of a ruined Europe which has to follow may be an even more tedious task. As yet the orgy of war havoc has not run its course and Heaven alone knows when or where it is to stop.

Gloomy as the outlook is, the financiers may at least congratulate themselves that they can see a little further ahead than either the soldiers or the politicians. What the armies of the future are to be, the most advanced military experts have not yet begun to speculate. What the politicians of the future are to be is too bewildering a theme for the ordinary electioneer. He feels sure that they will be in many respects the antipodes of the present generation. But important as these questions may be, there are others which will have to take precedence. The most urgent of all will be the financial problems. Nowadays, finance is the beginning and the end of war. Within forty-eight hours after the British Cabinet declared itself at war with Germany a huge vote of credit was asked of the House of Commons and a vote of credit will probably be the closing act of the world tragedy.

Financial Effects of War

The financial effects of war develop much more rapidly and distinctly than the military or the political effects. They begin on the threshold and they go on developing continuously to the end. London has been the center of these, as of all ordinary financial developments. It says much for the elasticity and adaptability of

London's financial machinery that they should have proceeded so smoothly and quietly. For more than two years the city has been undergoing a noiseless form of earthquake. The pre-war organization has fallen to pieces bit by bit and substitutes have had to be improvised for the broken parts. Lombard Street gradually wound up its normal business in commercial paper and diverted the greater part of its floating capital into British government securities.

From bankers' bills and acceptances it turned its attention to treasury bills, exchequer bonds and war expenditure certificates. Even its nightly balances were no longer lent in the street but paid into the Bank of England to the government account.

Side by side with the monetary revolution and interwoven with it a widespread commercial and industrial transformation has been going on. As munition works, factories, shipbuilding yards, steamers, hotels and going concerns of every kind were taken over by the government, the normal circulation of capital became more and more disturbed. A thousand streams hitherto separate and distinct became merged into one great river. Thousands of firms previously doing their own financing and pursuing their own line of business were converted by a stroke of the pen into state contractors. They had to place themselves at the beck and call of government officials and to act as agents of the Admiralty, the War Office, the Ministry of Munitions or some other public department. Mr. Lloyd George, when Minister of Munitions, boasted quite truthfully that he was by far the largest employer of labor in the United Kingdom.

THE PROBLEM OF FOREIGN EXCHANGE

Every one of these innumerable changes had a corresponding effect on the financial machinery of the country. Some of them lightened the strain upon it, but most of them increased it. Home trade and foreign trade each produced its own problems and difficulties all converging, however, into the grand problem of foreign exchange. How to maintain the stability of the pound sterling was now the supreme question for British bankers and financiers. Quite naturally, though very unexpectedly even to banking experts, this became the crux of British war finance. If Mr. Lloyd George or Mr. McKenna had many sleepless nights at the Treasury, as doubtless both of them had, it will be safe to say that more of them

were due to sterling exchange than to either war loans or war taxes. The latter gave them much less trouble than might have been apprehended. The first two war loans were triumphs of patriotic enthusiasm and lavish advertising. The treasury bills, exchequer bonds, war expenditure certificates, and "£ for 15/6" cards were taken up by hundreds of millions sterling. But useful as they were for meeting domestic expenditure they had the great drawback of not being available for foreign liabilities—unless of course at an increasing discount.

This dilemma, though it was one of the most certain incidents of war finance, had not been foreseen either at the Treasury or in the city. So utterly unexpected was it that in the first months of the war exchange were very much against New York and in favor of London. The most Gilbertian mission from one financial center to another ever known was that which the British Treasury sent to the United States in the autumn of 1914 to arrange for the rehabilitation of the dollar. From purely temporary causes—New York blamed chiefly the British moratorium while London protested that the moratorium was never strictly enforced against American credits—the dollar had dropped to an alarming discount in relation to sterling. There was no real occasion for the British Treasury to trouble itself on that score. It might from the beginning have been left—as it had to be at the end—to the American bankers who were responsible for it and understood it much better than any foreign visitor could possibly do.

It is perfectly clear now that in the exchange scare of 1914 the British Treasury should have done exactly the reverse of what it did. Instead of concerning itself about a slump in the United States dollar, which the progress of the war was bound to remedy and possibly drive to the opposite extreme, it should have taken the utmost advantage of the rare opportunity thus offered of buying or borrowing from the United States on the most favorable terms. As it happened it did its best to turn the American exchange against itself and then discovered that it must make huge loans and purchases when the dollar had risen from a considerable discount to an equally considerable premium. This deplorable lack of foresight had the most varied and far-reaching consequences. It not only made an enormous addition to the war burdens of the unfortunate British taxpayer, but it upset the whole course of business between

the two countries. Nor did it stop at ordinary business. In the end the British Treasury was forced by it into a roundabout system of forced loans for which financial history offers no parallel.

MOBILIZATION OF SECURITIES

This was the commandeering of investments—at first American dollar securities and then Canadians. Dark hints have been thrown out that the operation may be carried still further and that no class of British investment can be considered safe from it. Obviously, this is a panic policy which nothing less than the safety of the state would justify. It is also a one-ideaed policy. For the moment nothing is thought of by its authors but the maintenance of sterling exchange. The reaction which must inevitably follow when hundreds of millions' worth of dollar securities have been transferred from London to New York, and when the financial relations of the two cities have been turned right around—London becoming the debtor and New York the creditor center—is completely ignored. Foreign exchange dealers will find it very difficult to realize that a great stream of interest and dividend payments no longer flows eastward from New York, while a new stream of such payments has started flowing from London westward.

In the entire history of international finance there has never before been such a wholesale migration of negotiable securities from one country to another as that which the British Treasury has been at work upon for the past two years. As yet we can only see its preliminary effects. That it has been the principal means of steadying sterling exchange will not be disputed. Compared with the hundreds of millions sterling which have crossed the Atlantic in the form of securities, the shipments of gold from Canada to New York have been a mere flea bite. Nevertheless, the combined effect of both gold and securities has merely sufficed to hold up exchange at its reduced level of $4.76. Apparently that was all the financial experts in charge of the operation thought it advisable to attempt. They have had to shut their eyes to the thought of what may happen when their dollar securities are exhausted.

PRIMARY EFFECTS OF THE TREASURY POLICIES

In attempting to forecast the ultimate effect of this wholesale exodus of dollar securities we are checked on the threshold by the

profound uncertainty which prevails in the city as to its actual magnitude. The Treasury always professes to be agreeably surprised at the great volume of bonds and stocks sent in, but never the slightest indication is given of its actual amount. The only clues to it ever forthcoming—and they are the vaguest kind—we owe to the New York press. Occasionally we read in a New York cable of an Atlantic liner arriving with $25,000,000 of securities. At other times we are told that Wall Street has been weak on apprehensions of selling on behalf of the British Treasury. But about the migration as a whole we are allowed to know as little as about the fabulous munition contracts which the dollar securities are intended to pay for. An all round game of secrecy is being played by the Treasury and its city advisers.

There are, however, some effects which cannot be kept secret. It is impossible to conceal the fact that our American market has been nearly killed by losing the best part of its stock in trade. The banks, the trust companies, the insurance offices and private investors who used to be always turning over their American stocks have been forced out of them into war loans, Treasury bills, exchequer bonds or some other form of government credit. They have been driven out of what was for years the largest and freest market in the House into a practically new and untried market. Politicians continue to speak about the consol market as if it were still the same gilt edged institution as of old, but seen from the inside it is something very different. It has risks and vicissitudes before it which old-fashioned consol dealers never dreamed of. There is no saying what games the politicians may play with it, or how long it may be able to bear up against their emergency expedients.

Still less can we foresee how our future war taxes are to hamper for generations to come the competitive power of the nation in international trade, or how far the hybrid socialism which the war has imposed upon us is afterwards to be carried. An early return to pre-war conditions is out of the question. It is not even expected that the state will stand still where it is today. A further advance in the direction of nationalization is considered inevitable, and every fresh step taken on that slippery path will mean a new outpouring of state securities. The railways will probably be kept for some time under the existing war régime and out of it may emerge a new administration on the lines of the Port of London

Authority. If the railways go the collieries are pretty sure to follow and with the two key industries nationalized the state will be the principal owner as well as principal debtor. All British securities will be directly or indirectly socialized. As to whether or not that is to improve their quality there may be many different opinions.

At the close of the war it will be found that the British market has produced not only the largest quantity but the greatest variety of war loans on record. Its unfunded debt in particular will be a lasting wonder for the financial world. That over 1,200 millions sterling of short term securities could be sold over the counter as it were within half a year will seem to future ages incredible. But a much greater feat has yet to be accomplished—namely, the funding of this enormous mass of floating debt. When that tremendous task has been accomplished the three regular war loans—two British and the Anglo-French issue—will have to be renewed in some form or another. Evidently the British Treasury has several years of tough work ahead of it.

THE ULTIMATE EFFECTS

So much for the primary effects of the war on British investments. But there will be secondary and still more remote effects to consider also. How, for example, is British credit likely to come through the severe ordeal confronting it? On this point London bankers appear to be universal optimists. British credit, they say, stands as high as it ever did and doubtless in a superficial sense it does. But that is not the whole question. Not the quality but the strength of the national credit is what will tell in after the war reorganization. Will the financial resources of the country, viewed in their largest and broadest sense, be unimpaired? Only the most inveterate optimists can think so. Even unimpaired strength would not suffice for the new situation with its enormously increased strains and burdens. There will not be real maintenance of power unless it has grown equally with the work to be done.

Every belligerent nation and some neutrals as well will emerge from the war in a severely damaged financial condition. In the process of pulling themselves together they will have to create incalculable quantities of new securities which will have to be very cautiously handled. It will be impossible to raise them all at once to the pre-war level of gilt edged securities. There will be many

readjustments to make and many reorganizations to carry through before any approach to pre-war conditions becomes possible. In this purgatorial period investment values may be held down by dear money, new loans and higher working costs. Material damage has been done during the war to nearly every financial system in Europe and in some cases it may be very prolonged. So many unexpected emergencies had to be faced and so many novel devices had to be tried that all kinds of dislocations followed. These not only affected the conduct of the war but they are leaving behind them the seeds of future trouble.

By a not unusual irony of fate it may turn out that the damage done has been greatest where the greatest pains were taken to avert it. London, recognizing its exceptional position in the financial world and the responsibilities which such a position entailed on it, did its level best to foresee all possible dangers and provide against them. Whether in its excessive zeal and its over-anxiety it always acted wisely is now generally questioned. No human government could possibly have solved offhand all the financial and commercial problems which crowded in on the Asquith Cabinet from the moment that war was declared. But the ministers being for the most part lawyers had unlimited confidence in themselves and no difficulty came amiss to them. Very soon they had so many puzzling questions on hand that while they were grappling with a comparatively unimportant one something much more serious was allowed to drift into disaster. One case in point which American readers may easily recall is the belated Anglo-French loan of 1915 which was put off until a phenomenal slump in sterling exchange rendered it doubly difficult to negotiate.

THE WAR AND THE INVESTMENT MARKETS

In attempting to answer the question which has been put to me by the editors of this war number of *The Annals* as to the influence of the war on the investment market, I should first of all premise that a broad view must be taken of war finance. It varied widely both among neutrals and belligerents. It was handled very differently in various countries and by various governments. The financial conditions in Great Britain which had world-wide liabilities to protect not only for itself but for half a dozen Allies were necessarily far heavier than those of the Allied states which Great Britain

helped to finance. It needs no argument that the British task was in this respect the heaviest of all. Any finance minister, however skillful and courageous, might well have shrunk in despair from the innumerable risks and perils which Mr. Lloyd George had to face at the outset of the war. It has been sardonically remarked that his comparative ignorance of city conditions in those fateful days saved him from losing his head. Had he known more he might have been less ready with his Treasury guarantees to the bill market, the banks and other institutions.

The sensational measures with which the financial campaign opened, however, were justified by success and that may be held to exempt them from further criticism. What is of practical interest now is the complete reversal that afterwards took place in the official policy. From excessive freedom and liberality the government rushed to the opposite extreme of restriction and prohibition. This later policy was afterwards pursued right along with very little relaxation but rather with increasing severity. The ostensible object of it was twofold—first, to conserve our financial resources for the service of the war; and second, to prevent money or securities reaching the enemy. The fact of its having been belated may account to some extent for the feverish eagerness with which it was at last applied. Its principal victim was the stock exchange.

EFFECTS OF CLOSING THE STOCK EXCHANGE

From July 29, 1914, when the stock exchange was closed until the following January when it was reopened business had to be carried on in the street. Uncomfortable and inconvenient as that was, especially in the cold and wet winter months, it had its compensations. Dealings were practically free and a considerable amount of business was done between offices by telephone or messenger as well as in the street. The committee issued new regulations almost daily but they were not as a rule restrictive. They were generally intended to solve difficulties or to remove obstacles that were always turning up. Many of the old rules had to be altered or modified to suit the new conditions. Far, however, from being obstructive, much less prohibitive, the new rules were intended to facilitate business. Members were urged by the committee to close up their accounts as far as possible. Those who had stocks to deliver were advised either to deliver or to close them.

Those who had stocks to receive were asked to take them up and pay for them as soon as they could. There was no suggestion of stopping business and arbitrage operations were in fact increasingly active.

All went fairly well for the first three months. Between the beginning of August and the end of October considerable progress was made with the closing of pre-war accounts. A general stock taking then made at the request of the committee showed that the outstanding liabilities of the House amounted to about eighty or ninety millions sterling. A scheme was now evolved for avoiding forced liquidations during the war and the Treasury appeared for the first time on the scene. It joined the clearing house committee of the banks and the stock exchange committee in a tripartite agreement "with a view to avoiding forced realization on a large scale of securities held as cover for account to account loans."

The clearing banks had previously agreed in consideration of the currency facilities given them by the government to continue their stock exchange loans until the end of the war and for twelve months thereafter at a fixed rate of five per cent. To enable other banks and lenders of money to continue their loans for a corresponding period it was arranged with the Bank of England to advance to them 60 per cent of the value of the securities held by them "against any loans which they had outstanding on the 29 July, 1914, such securities to be valued for the purpose of the advance at the making up prices of the 29 July, settlement." The Bank of England was to have the right when any security reached its end of July price to call on the borrowers for a repayment to the extent of its value. Failing compliance it was to have a right of sale at not less than the settlement price.

These were all the concessions that the Treasury made to the stock exchange and such as they were it was much more for the sake of the banks than of the stock exchange they were granted. Moreover, a very substantial *quid pro quo* was exacted for this nominal service. Excuses have been offered for the Treasury that it was still confronted by many novel and puzzling financial problems arising out of the war, and was justifiably cautious in consequence. The banking problems it met fairly and up to a certain point successfully, thanks to the sound advice it received from the principal banking authorities who had loyally placed themselves at its serv-

ice. Unfortunately no opportunity was given for an equally good understanding between it and the stock exchange.

THE POLITICIANS AND THE STOCK EXCHANGE

The professional politicians have always been shy of Capel Court. Many of them look askance at it for moral reasons and many more pretend to share these scruples. The average member of the House of Commons speaks respectfully of Threadneedle Street and Lombard Street, but he is given to sneering at the stock market. He may think that by treating it as a "glorified gambling shop" he commends himself to his more strait-laced constituents. Or, possibly like the ministerial victims of the Isaac Marconi scandal he may not have been very lucky in his speculations. Whatever the reason, there has long been an undercurrent of parliamentary suspicion and prejudice against stock exchange men. The year before the war broke out this had been intensified by the action of the stock exchange committee in frustrating the attempt of the House of Commons to whitewash the ministers implicated in the American Marconi gamble. After the collapse of the whitewashing committee and the adoption of a condoning resolution by the friends of the government the stock exchange had instituted an independent inquiry into the flotation of the American shares. The result was a severe condemnation of the transaction and various terms of suspension for the members implicated. Then the public had the remarkable paradox presented to them of a higher standard of morality being recognized by stock jobbers than by our law makers. But the ministers and their henchmen had not long to wait for their revenge. The war and the financial crisis into which it plunged the city placed every trader and financier in the country at the mercy of the government. With none too delicate taste Mr. Lloyd George and Lord Reading assumed control of the stock exchange. They practically superseded the committee which, however, was no great misfortune as very few of its members were men equal to the emergency.

Moreover, the few strong men among them were under heavy obligations to the banks which completely tied their hands. They could offer no effective opposition to the edicts of the Treasury endorsed as these invariably were by the banks. When at last the stock exchange was permitted to reopen on the fourth of January,

1915, the permission was to a large extent a mockery. All that it really gained was shelter from the weather under its own roof and at its own expense. What it had to give up was not merely its liberty but the best part of its business. Arbitrage operations were absolutely stopped—an interdict which cut off at a stroke three of its best foreign markets—American, French and Dutch. It was forbidden to do any business after three o'clock, the precise hour at which New York cables begin to come in. It could not deliver any bonds or bearer shares which had not been in the physical possession of the vendor in the United Kingdom since a certain date in the preceding September (1914). It could not transfer any registered shares which did not comply with a similar condition. It could not take part in the issue of any new shares or in the raising of fresh capital for an existing company without the express sanction of a special committee of the Treasury appointed to act the part of watch dog. It could not deal either privately or publicly in any new issue without the authority of the Treasury conveyed through the stock exchange committee. It could not enter into any time bargains and all dealings had to be for cash.

THE IMPOSITION OF MINIMUM PRICES

As if that catalogue of "don'ts" were not long enough to reassure the parliamentary lawyers against all the financial perils they could conjure up, minimum prices were affixed to the greater part of the official list. The "making up" prices of July 27, 1914, were adopted as a sort of legal bed rock below which stocks were not to be allowed to fall. This edict was not strongly objected to at the time nor in fact was there much open opposition of any kind. The official description of them as "Temporary Regulations for the Reopening of the Stock Exchange" disarmed criticism at the outset. But if members had had the slightest suspicion how long the minimum prices were to be retained they might have been much less submissive. No important relaxation of them took place until after the successful floating of the McKenna loan in June, 1915. This enabled the joint stock banks to unload their heavy lines of consols by the indirect process of converting them into "McKennas." Then they were allowed to flop about ten points and pass into cold storage.

The next set of minima to be released was colonial government

stocks. The joint stock banks had never been very large holders of these, so they did not risk much in having the peg taken out. They were chiefly held in the House by dealers in the consol and colonial markets and before the war the public absorption of them had been so persistent that very little floating stock remained. There was thus little risk in letting them stand on their own feet. The group of securities which suffered most under the minimum régime was the preference and debenture stocks of the home railways. For some inscrutable official reason these were hung up for nearly a year and a half. After many false alarms the pegs were taken out on the fifteenth of May, 1916, and a slump of ten to twenty-three points at once took place: surely a rare experience for gilt edged securities without a trace of wild cat about them. Before the war they had been our most favored trustee investments—more favored even than consols. They were held to be quite as safe as consols and they yielded a somewhat larger return which commended them strongly to middle class trustees. The small investor was also partial to them and so were provident societies including even trade unions.

Why this particular market should have been shut down for nearly eighteen months defies explanation. None in fact was ever attempted. From the first the stock exchange committee disclaimed any responsibility for the closure though they could give no information as to the responsible authors. All they could say was that the order came from the Treasury and in the public interest had to be obeyed. Whether the order was issued by a Treasury clerk or by the Chancellor of the Exchequer could not be ascertained. After much importunity a reluctant reception was given to a deputation of private members who desired information on various knotty points. When the deputation arrived it found the Chancellor of the Exchequer entrenched in a small crowd of bankers and financial authorities including Mr. Lloyd George's *fidus Achates*, Lord Reading. Polite sympathy was all they got. Not a single shackle was removed until long after.

Obstinacy of the Treasury and the Results

Even when the Treasury found that the boycotting of home railway prior charge stocks was recoiling on itself it would not yield. Like Pharaoh, it hardened its heart and would not let the

Israelites go. Deceased estates came tumbling into Somerset House (the headquarters of the Inland Revenue Department) nearly every one of them containing minimum priced securities for which there was no market. No jobber would buy them at the official minimum which was the pre-war price calculated on a yield of say four per cent. As the war had knocked down all corresponding stocks to a five per cent level it was naturally concluded that home railway prior charges should follow suit. By keeping them pegged up at impossible prices, the Treasury was unable to have the necessary valuations made for its death duties. In the course of a few months millions of securities accumulated with which it could not deal.

Duties ranging up to 20 per cent of the gross value of a deceased estate could not without rank injustice be levied on arbitrary valuations ten or fifteen points above market level. On the other hand, the liquidation of these estates could not be blocked indefinitely. At last the Treasury offered what it doubtless considered a generous alternative, namely a discount of 7½ per cent from the official minimum. It thereby created a Gilbertian situation. Stocks could be dealt in privately with the Treasury but not publicly in the stock exchange. Then there were two minimum prices—the stock exchange minimum which was ten or twelve points above the market and the Treasury minimum which was only four or five points above the market. Nor was this an insignificant case of a few exceptional stocks. Hundreds of separate securities and two or three hundred millions of money were involved in it.

During the boycott the writer was informed by one dealer that out of a hundred and fifty stocks on his book he could deal only in half a dozen. Holders of the other 144 stocks were absolutely tied up with them for eighteen months, and not a word of explanation could be got anywhere or a hint as to how long the senseless boycott was going to be maintained. In the end it was taken off quite suddenly and at a few days' notice. Then another Gilbertian result happened. After the first slump had landed prices at bed rock a recovery at once set in and within a few days average gains of three or four points were recorded. If the Treasury had apprehended a rush of sellers it must have been agreeably disappointed for buyers were chiefly in evidence. The dealers had very little stock on their books—a surprise which also occurred in other mar-

kets, colonial stocks especially. These boycotted markets had in fact been nearly sold out before the boycott was put on.

Then the Treasury had another surprise. The Chancellor of the Exchequer had talked early and often about our patriotic duty to conserve our financial resources for carrying on the war. Apparently he thought that by bottling up existing investments he would be laying up money for future war loans. But his policy worked the other way. While the regular investment markets were bottled up his principal war loan—the McKenna loan of 1915—declined from par to under 95 or fully five points. As soon as his boycott was removed both the war loans and gilt edged securities generally lifted their heads again and the stock exchange had the best week in its experience since it was reopened. The credit of this welcome revival must be shared, however, with Wall Street. It gave Capel Court a vigorous lead and Capel Court played up to it. For the first time in the war London and New York were both comparatively buoyant.

Thus we have double proof that the Treasury boycott was a bad blunder. While it was in force, the stock exchange languished and was dying by inches. The moment it was removed a sharp rally took place and healthy markets appeared where there had been universal stagnation and despondency. The success of the home railway release was so marked as to impress even the Treasury pessimists. They were emboldened by it to unlock the last of the remaining shackles—those on local loan stocks, Indias, and municipals (classed in London as "Corporation Stocks"). If anything could have been more puzzling than the boycott itself it would have been the extension of it to India.

THE BOYCOTT AND THE INDIAN MARKET

The Indian market was the last that should have been boycotted for much depended upon it. Political order and security had to be preserved by every possible means. Our financial as well as our military prestige had to be maintained. The utmost use had to be made of the capacious market which India offered for our exports. As a safeguard against exchange troubles securities and credit paper of every available kind should have been kept in active circulation. A living stream and not a dead pool was what the emergency required. But the lawyer financiers at the Treasury could not grasp

that fundamental principle of business. They could not trust business men to take care of themselves and to do their duty by the country. So they wove round them a network of prohibitions and restrictions which hampered them at every turn. An untold amount of help which might have been obtained from India was thus deliberately sacrificed. The greatest of our oversea dominions, instead of being drawn closer to us by the war as all our other dominions and colonies were, was rather held at arm's length. The minimizing of India stocks was not the least of the Treasury's mistakes.

THE AMERICAN MARKET

There were a few markets which fortunately for themselves the Treasury could not "minimize" or doubtless it would have been done. The largest and most important of these was the American market. It would have been useless for the Treasury to attempt to control prices which nowadays are made in New York rather than in London. The only possible effect of such a policy would have been to drive American business out of the House and into the hands of foreign firms over whom the Treasury could have little or no control. At all events it did not attempt to exercise any, and often orders which could not be executed in the official market were quite practicable in some Jewish resort across the street. The Treasury veto on arbitrage transactions, its three o'clock closing edict and the disqualification of all shares which had not been in physical possession in the United Kingdom since September, 1914, were sufficiently hard on holders of American securities without subjecting them to the further hardship of minimum prices.

The beneficial effects of this comparative freedom were speedily apparent. From the day that the New York stock exchange reopened prices took an upward turn. This enabled British holders of American stocks to liquidate gradually. During the prolonged demoralization which preceded the war, prices had got down to bed rock and the upward turn in accordance with its usual rule followed very sharply. Between August, 1914, and the special settlement in the following November a very considerable rally took place—thanks almost entirely to Wall Street. But for it the great reduction in the stock exchange account which occurred during these four months would have been impossible. Had there been minimum prices

fixed on all American stocks London would have been shutting itself out from that opportune boom. The reopening of the London stock exchange in January, 1915, was made the occasion of another bull performance. The "munitions boom" as it was called, became fast and furious, but London had very small interest in it. One or two Canadian companies which had obtained large contracts happened to have a small market here which flared up for a few weeks and then died down. However, even these few crumbs from the trans-Atlantic table put fresh heart in the half-ruined Capel Court

THE MUNITIONS BOOM

The next notable episode in the American market was a very curious one. The "munitions boom" in New York grew out of our own shrapnel scare in May, 1915, which precipitated the formation of the Coalition Cabinet, the creation of a Munitions Department and the huge shell contracts showered on American manufacturers in the succeeding months. These special additions to our already huge imports from the United States and Canada upset sterling exchange so completely that even Downing Street optimism was no longer proof against it. The ordinary remedies—gold shipments and a few turns of the bank rate screw—would have given only momentary relief. The crisis demanded more heroic and durable remedies. The banking experts could suggest only two—the first, a large loan in New York, and the second a wholesale return of our American dollar securities to their native country. This was another chance for the Treasury. It began by employing dealers and brokers in the American market to buy up all they could get of the bonds that could be most easily gathered in. This went on for several weeks, bull prices being paid for every obtainable bond. A direct appeal was next made by the Treasury to the public to sell their American bonds which many of them did. But such a Moloch was the sterling exchange at twenty points under parity that a second appeal had to be made to public patriotism for bonds on loan. All very unique incidents indeed, in war finance.

London differs from most other financial centers in possessing a great variety of markets. The continental bourses depend on a few large groups of securities—government stocks, railways, mines and metallurgical works. Their industrials are generally on a larger scale than ours, but more limited in number. American

industrials are both numerous and gigantic but even they lack some of the peculiar features of the British stock market. For example, they have no tea and rubber group. They have few if any colonial groups. They have no exploration companies like the British South Africa (alias "Chartered"), the Tanganyika, the British Borneo, etc. They have not as yet—though apparently they hope to have soon—international corporations destined to extend American trade and finance to the remotest corners of the globe. London was rich in these oversea reserves, second strings to her bow as it were, and they did good service when the war strain was greatest.

In the first year of the Treasury régime, when all the investment markets were "minimized," the stock exchange lived mainly on rubber and oil shares. Both commodities were in demand for war service, and well managed companies were able to show handsome profits. A rubber and oil boom gradually developed and a comparatively small volume of operations produced important psychological results. They showed that there was still some bottom left in at least two of our markets. The fact that free dealing survived in one or two corners of the House had also an encouraging influence. Even the Treasury had to recognize the necessity of giving a free hand to rubbers, oils, Kaffirs and shares of that class. Any attempt to throttle them in Capel Court would only have forced them to find a new outlet elsewhere. Tea shares might have migrated wholesale to Mincing Lane while Johannesburg and Cape Town would have snapped up the Kaffir Circus.

SECRECY IN BRITISH FINANCE

The bondage which the stock exchange for nearly two years had to endure at the hands of the Treasury and its promiscuous experts may seem incredible to American readers unfamiliar with the traditions of British politics and finance. These have no counterparts in New York and some of them are the exact opposites of American ideas on the same subjects. Publicity is the keynote of American finance. Secrecy is the British keynote. In the House of Commons, in public departments, in the banks, in the stock exchange and throughout the city the historical motto is "Mind your own business and keep it as much as you possibly can to yourself." Anyone who takes the trouble to glance at the questions put to ministers in Parliament and the evasive answers which ministers give to them

will very correctly conclude that mystification is a parliamentary fine art. It is almost equally cultivated in the city.

What would be thought of the oldest bank in the United States if it had never in all its long life made a detailed report to its shareholders or submitted to them a working balance sheet? But that is literally true of the Bank of England. It is the one great international bank which never takes down its shutters. Every half year the shareholders assemble in the board room to hear the amount of the "rest" or divisible balance and to be told what dividend they are going to get. Beyond that all is twilight and secrecy. Shareholders in the joint stock banks are rather better treated but not much. They get a few details of their position, the meagreness of which is atoned for by an oracular address from the chairman reviewing the financial condition of the world at large. This high example is followed more or less closely by all joint stock chairmen. To make shareholders believe that they are getting valuable information when they are only having their ears tickled with platitudes is one of the most useful secrets of British joint stock directors.

When officials and business men take to playing the secrecy game on each other the officials generally come off best. That is what happened in the city with most of the special war measures that had to be adopted. Quietly, stealthily and sometimes even craftily the Treasury and the board of trade gathered up the strings of nearly all kinds of business and pulled them this way or that as the necessities of the crisis demanded. They appointed advisory committees, expert committees, special committees and sham committees. They dissolved them, reorganized them, renamed them, and turned them over from one job to another indiscriminately. They set lawyers to investigate the management of the aircraft service and at the most critical stage of the war the Chancellor of the Exchequer deserted the Treasury in order to organize a new Munitions Department.

Political Dictation to Business

Had Lord Reading and Mr. Lloyd George really been the heaven born financiers their friends considered them to be, the last thing they would have dreamed of would be to control the city from a dark room in Downing Street. Such, however, was the régime under which the city had to languish for months. While all

branches of commerce were "regulated" the stock exchange was practically strangled. Today it is simply a shadow of its former self. The American market has suffered so seriously that its recovery will be a question of years. The older and more despondent members begin to doubt if it will ever recover at all. Many of them have retired from business and others have migrated to less damaged markets. There have been not a few deaths among the "fathers of the House" accelerated, perhaps, by the "temporary regulations."

Altogether the contrast between Capel Court and Wall Street on this occasion is sad and by no means flattering to British self esteem. It may be objected that no fair comparison can be drawn between a stock market saddled with a great war and one which is enjoying all the advantages of a neutral. But no one would for a moment have expected Capel Court to right itself after the first shock of the war as quickly and easily as Wall Street did. Making, however, all reasonable allowance for its much heavier task the fact remains that it floundered and blundered much more than it need have done had its management been in wiser hands. No one connected with it now doubts that it would have got over the crisis much more quickly and with less damage had it been more left to itself. An entirely free hand it could not and did not expect, but the Treasury yoke was unnecessarily heavy and galling.

BETTER METHODS ADOPTED IN WALL STREET

In a former work, the writer has paid an admiring tribute to the skill and success with which the war crisis was handled at the outset by the committee of the New York stock exchange. In describing the sensible methods they adopted he said:

> A Committee of five was appointed with absolute power not only to make emergency rules but to see them carried out. They started with a complete suspension of business and then granted partial resumptions as the market recovered and could be trusted with a freer hand. In this way the embargo was gradually removed and within six months Wall Street was again on a normal footing.[1]

One reason for the greater smoothness and speed with which the restoration of Wall Street was effected has been already given—namely, its simpler and more up to date machinery of settlement. Another and more important one has now to

[1] *British War Finance*, p. 131.

be added. It was the different spirit in which the two operations were conducted. Wall Street was allowed to reorganize itself. Its Committee of Five had only the stock market to consider and their one duty was to set it as speedily as possible on its feet again. They had not to guard it against war risks or enemy aliens or other political dangers. All its operations and arrangements had to be regarded primarily from the stock market point of view and not as in London from the point of view of the Treasury and the banks.[2]

Eighteen eventful months have passed since these words were written but time has not diminished in the slightest degree their force and significance. On the contrary, it has greatly intensified the contrast drawn between the British and American stock markets. Americans themselves appear to have a very vague and inadequate appreciation of the superior freedom and independence which their investors enjoy. Even broad-minded and widely informed authorities like Mr. Otto Kahn have fallen into strange misconceptions as to the relative positions of politicians and business men in the old and the new worlds. In an address which he delivered in April, 1916, to the American Newspaper Publishers Association, he said:

Everywhere else throughout the civilized world in matters of national policies as they affect business the representatives of business are consulted and listened to with respect, which is due to expert knowledge. It is only in America that the exigencies of politics not infrequently—I might almost say habitually—are given precedence over the exigencies of business. When scolded, browbeaten, maligned, and harassed, finance may well turn upon its professional fault-finders, and challenge comparison.

That flattering picture of the business expert who is consulted and listened to with respect may be in a limited sense true of Mr. Kahn's native country, Germany, but in few other parts of Europe would it be recognizable, least of all on British soil. Nowhere is the professional politician so overbearing and the business man so overborne as in the British House of Commons. This unnatural and unhealthy condition had its origin twenty years ago in the advent of labor democracy. Before the war it was rapidly becoming intolerable. Labor and capital were steadily drifting toward a life and death struggle. The war found a lawyer cabinet in control not only ignorant of business but jealous of business men and much less ready to work with them than to work against them.

A generation ago Mr. Kahn might have found in London some

[2] *British War Finance*, p. 133.

traces of his ideal world in which representatives of business were listened to with respect even by popular politicians but these days had long departed before the war. The relations between politics and business had undergone an almost revolutionary change. The investor had been even more unfortunate than the man of business for his center of gravity had been changed not merely once but two or three times. The value of money had shifted backwards and forwards. Investment values had followed the upward and downward movements of money. In addition to their own proper risks investors had had to suffer all the chances and changes of political finance. A rapid succession of Chancellors of the Exchequer with different ideas and policies became a chronic danger to them. They began to realize that the Treasury and the House of Commons were their natural enemies.

CONCLUSIONS

The reader must draw his own conclusions from the foregoing description of the Treasury régime in Capel Court. With modifications a similar picture might be drawn of the great grain market at the Baltic, of the Metal Exchange, Mincing Lane, Lloyd's and other national marts in the city. One and all of them were—not "democratized" as electioneering dupes had been led to expect, but "bureaucratized"—quite a different thing. The defence of the Realm Act and its many amendments gathered the whole of them into an official net which was drawn closer and closer as the war proceeded. Mr. Otto Kahn was therefore under a strange delusion when he professed to envy British men of business for the homage paid to them by the politicians. The two classes have been at daggers drawn all through the war. So far the politicians have had the upper hand and they have not hesitated to use it.

This will be one of the main issues of the next general election which the Coalitionists will put off till the end of the war if they possibly can. But the House of Commons is confessedly moribund and its unpopularity may become so strong as to render any further extension of its life impossible. Whether the inevitable appeal to the people comes soon or late, it will be a crucial event for all the complex interests of the city and especially for the stock exchange. The future of British investments is wrapped up in a huge combination of political, industrial and fiscal problems.

Before stock values or indeed any kind of values can regain their normal level the struggle of the politician and the business man for mastery will have to be decided once for all. Before industrial harmony can be reëstablished capital and labor will both have to give up their class selfishness and consider what is best for the community.

Until some of these bed rock problems are settled the British investor will have a very precarious and uncertain outlook. The restoration of British supremacy will demand gigantic efforts on the part of its rulers, its financiers, its industrialists and its traders. Whether people who have hitherto worked chiefly for their own hands and who know very little about the higher forms of coördination and coöperation can be induced to close their ranks at a moment's notice is none too sure. It is certain, however, that nothing less will rehabilitate the badly battered and now heavily mortgaged British Empire. A tremendous increase of earning power combined with drastic economy both public and private can alone repair the financial havoc which the war is leaving behind it. That calls for loyal and reasonable labor as well as for freedom of capital and a minimum of political dictation.